
Improving Your School's Student Loan Default Rate

Contact Rates & Resolution Rates: Why Are They Important?

Post-secondary schools have a vested financial interest in helping their students take responsibility for repaying education loans, and administrators play a key role in deciding how to best educate student borrowers about their responsibility. Choosing the most effective strategy for reaching student borrowers after they leave school helps guarantee a successful return on your investment.

Two effective strategies reach out to students early—prior to entering repayment and prior to default. Grace calling and default aversion are proven strategies that identify and solve issues **BEFORE** they become problems by:

- Contacting borrowers during the loan grace period
- Educating borrowers about the repayment process
- Facilitating resolution by connecting with the loan servicer
- Informing borrowers about their repayment options

Grace calling and default aversion are proven strategies that identify and solve issues *before* they become problems.

How do you select an effective outreach program when there is some confusion about how to evaluate program performance? For example, which is more important when selecting a program—contact rate or resolution rate? Since providers define key elements of service differently, it's important to ask questions before selecting a provider.

Using best practices will yield strong results for your school. Both contact and resolution rates are important.

A variety of specific details and factors impact each rate. First, let's define the meaning of "contact rate."

Formula for calculating contact rate:

$$\frac{\text{Number of successful contacts}}{\text{Number of attempts}} = \text{Contact Rate}$$

Understanding Contact Rates

A successful contact is defined in many ways. A broad definition is when someone, not necessarily the intended party, answers the phone, receives mail, or any other form of communication (e-mail, text messaging, and chat). However, a more specific definition is referred to as a "Right Party Contact" (RPC), commonly defined as speaking with the person who has direct decision-making authority regarding the issue being discussed. This means communicating directly with the borrower, or someone who is legally designated to make decisions for the borrower, such as a person with a power of attorney.

Is RPC more important than the general contact rate? The RPC is critical when communicating directly with the borrower who has the responsibility and the authority to resolve the delinquency. The more general contact rate is the mechanism which creates many of the inbound calls from borrowers, such as after you leave a message.

What factors impact contact rates? Many factors can raise or lower a contact rate. Here are six key factors:

1. **Accurate borrower demographic information.** The more accurate the demographic information (address and phone number), the better likelihood the borrower will be contacted.
2. **Communication tools.** Employing a variety of methods to contact the borrower achieves the highest contact rate. Borrowers respond differently to each communication tool. Some respond to letters or calls; others respond to text messages but not to e-mails. Experience shows that the wider variety of tools you use, the greater assurance the borrower is contacted.
3. **Timing.** Even when using many different tools, *when* you use each tool proves critical. Sending letters and e-mails on staggered schedules is one technique. A more successful method is to call borrowers at different times of the day and on different days of the week. Calling on weekends provides the maximum opportunity to contact the borrower.
4. **Hours of operation.** Your results improve by allowing the maximum number of hours in a day to contact the borrower using outbound calls or for a borrower to call back. Contacts can be lost if you are not available at the borrower's convenience. (Note: the Fair Debt Collection Practices Act limits outbound calling hours to 8 a.m. to 9 p.m. borrower's local time.)
5. **Skip tracing.** This is the effort to find a borrower when the address and/or phone number is unknown. When good contact information is unavailable, sound skip tracing proves effective. Some programs do not employ this method but should. It includes calling references, using social media, or using a skip-tracing service. The more successful your efforts in this area, the more likely you will be to contact the borrower.
6. **Other Techniques.** Another best practice is to use different caller ID numbers on outbound calls. Borrowers often block previous numbers. Using different numbers often gets results. (Note: All numbers must be valid so that borrowers can call back.) Another technique is to send notices with handwritten or colored envelopes. These diverse techniques are designed to gain the borrower's interest and solicit a response.

Understanding Resolution Rates

Now that contact rates have been explained, let's define "resolution rate." A resolution rate or cure rate is commonly defined as the rate of delinquent borrowers, loans, or dollars that are brought current. The resolution rate is generally calculated in batches (monthly, weekly, daily) using a formula. What impacts resolution rates?

Contact Rate. One of the most important factors in resolving borrower delinquency is the contact rate. By contacting the borrowers, you are able to make them aware of their options. If borrowers cannot be contacted they cannot be assisted.

Pre-delinquency efforts. Everyone wants the highest possible resolution rates. However, the more effective a school is at preventing delinquency through entrance and exit counseling, financial education, and grace contact efforts, the lower the overall resolution rate may be. A resolution rate may be lower for a school with highly successful delinquency prevention efforts, since the most easily assisted borrowers never become delinquent.

Account age. The earlier in the delinquency cycle a borrower can be contacted, the more likely the borrower will cure. Generally, borrowers who are 30 days delinquent have a higher resolution rate than those who are 150 days delinquent. The older the account becomes, the less likely it is to be cured.

Resolution rate formulas:

Number of borrowers brought current
Number of borrowers originally delinquent = Resolution Rate

Number of loans brought current
Number of loans originally delinquent = Resolution Rate

Dollar amount brought current
Dollar amount originally delinquent = Resolution Rate

Staff expertise. Contacting the borrower is only the beginning. Once a borrower is contacted, especially via phone, the counselor's ability to provide the best options is critical. Highly trained counselors with knowledge in all repayment, forgiveness, discharge, deferment, and forbearance options are best equipped to provide the borrower with the best short- and long-term options available. These counselors are critical to not only curing the account, but doing it in the most beneficial manner for the borrower.

Borrower. Even when borrowers are contacted and highly trained counselors work with them, it is still the borrower's responsibility to take the action. Successful default aversion is dependent on a counselor's ability to motivate borrowers to take action. Finally, evaluate both the resolution and contact rates on a case-by-case basis. These are only a few of the factors which can impact each rate. The rates may not always provide an obvious answer or dictate an obvious strategy. Remember that each cohort group has a unique makeup; one group may be more difficult to cure than another.

Selecting a Provider. As you evaluate programs intended to decrease student loan defaults, consider the strategies each provider uses and how the provider determines the contact and resolution rates. Keep in mind the key factors outlined here when selecting a provider to assist you in reducing your school's student loan default rate.

About the Author

Dave Macoubrie is vice president of repayment solutions at Inceptia, a division of the National Student Loan Program. He has 24 years of experience in student loan services, including work with program development and support, bankruptcy, claims and account administration. Dave has also served as director of guarantee agency collections for Nelnet Guarantor Solutions. Dave holds a bachelor's degree in business administration from Wayne State College in Wayne, Nebraska. He is part of the Inceptia team that provides guidance to both schools and students in default aversion, compliance and financial education, working directly with students on their quest to fulfill their educational dreams and uphold their commitment to repay their student loans.

About Inceptia

Inceptia is dedicated to providing much-needed support to help schools effectively fulfill their roles and responsibilities. Our mission is to provide guidance to schools, along with the means to help their undergraduate, graduate and professional students succeed. Through comprehensive analytics, student success tools, financial education, default prevention and financial aid management, we are confident we can help all students, not just borrowers, become financially responsible adults. We are here to make it possible for more schools to launch brilliant futures. More information at Inceptia.org.